

**REPORT OF THE AUDIT OF THE
ROWAN COUNTY
SHERIFF**

**For The Year Ended
December 31, 2008**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE ROWAN COUNTY SHERIFF

**For The Year Ended
December 31, 2008**

The Auditor of Public Accounts has completed the Rowan County Sheriff's audit for the year ended December 31, 2008. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$17,997 from the prior year, resulting in excess fees of \$123,403 as of December 31, 2008. Revenues increased by \$85,421 from the prior year and expenditures increased by \$67,424.

Report Comments:

- The Sheriff Has \$191 Of Disallowed Expenditures
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits as of December 4, 2008 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured \$3,264,360

The Sheriff's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jim Nickell, Rowan County Judge/Executive
The Honorable Jack Carter, Rowan County Sheriff
Members of the Rowan County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of Rowan County, Kentucky, for the year ended December 31, 2008. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2008, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated November 16, 2009 on our consideration of the Rowan County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Jim Nickell, Rowan County Judge/Executive
The Honorable Jack Carter, Rowan County Sheriff
Members of the Rowan County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Has \$191 Of Disallowed Expenditures
- The Sheriff's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Rowan County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

November 16, 2009

ROWAN COUNTY
JACK CARTER, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2008

Revenues

Federal Grants		\$	28,192
State - Kentucky Law Enforcement Foundation Program Fund			35,329
State Fees For Services:			
Finance and Administration Cabinet	\$	87,552	
Court Security		22,385	
Cabinet For Human Resources		<u>18,537</u>	128,474
Circuit Court Clerk:			
Fines and Fees Collected			355
Fiscal Court			140,157
County Clerk - Delinquent Taxes			2,348
Commission On Taxes Collected			327,536
Fees Collected For Services:			
Auto Inspections		5,220	
Serving Papers		42,810	
Carrying Concealed Deadly Weapon Permits		2,250	
Add-On Fees		63,602	
Advertising Fees		4,653	
Transporting Prisoners		<u>4,237</u>	122,772
Other:			
Reimbursement		3,096	
Miscellaneous		<u>6,492</u>	9,588
Interest Earned			252
Borrowed Money:			
State Advancement			<u>103,943</u>
Total Revenues			898,946

The accompanying notes are an integral part of this financial statement.

ROWAN COUNTY
 JACK CARTER, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2008
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$	155,896
Part-Time Salaries		95,858
Other Salaries		97,530
Overtime		26,890

Employee Benefits-

Employer's Share Social Security		31,942
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Materials and Supplies-

Vehicle Maintenance and Repairs		64,700
Office Materials and Supplies		8,800
Uniforms		11,197
Computer Software		2,181

Other Charges-

Paper Service to Fiscal Court		10,730
Advertising		2,680
Conventions and Travel		6,915
Dues		150
Postage		6,466
Deputy Testing		489
Bond		140
Cell Phone/Radio/Pager		6,498
Miscellaneous		3,002
Deputy Expenses for Transporting Prisoners		9,410
Contracted Services		4,779

Capital Outlay-

Office Equipment		3,729
Vehicles		8,000
	\$	557,982

Debt Service:

State Advancement	103,943	
Vehicle Lease Payments	30,976	134,919

Total Expenditures	\$	692,901
Less: Disallowed Expenditures		
Vehicle Maintenance		(191)
Total Allowable Expenditures		692,710

The accompanying notes are an integral part of this financial statement.

ROWAN COUNTY
JACK CARTER, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2008
(Continued)

Net Revenues	\$ 206,236
Less: Statutory Maximum	<u>79,308</u>
Excess Fees	126,928
Less: Training Incentive Benefit	<u>3,525</u>
Excess Fees Due County for 2008	123,403
Payments to Fiscal Court - April 3, 2009	<u>116,349</u>
Balance Due Fiscal Court at Completion of Audit *	<u><u>\$ 7,054</u></u>

* The Sheriff paid the remaining excess fees due on November 16, 2009.

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2008

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2008 services
- Reimbursements for 2008 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2008

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

ROWAN COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2008
 (Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.17 percent for the first six months and 13.50 percent for the last six months of the year. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 33.87 percent for the first six months and 29.50 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Rowan County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Rowan County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2008, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of December 4, 2008, the Sheriff's bank balance was exposed to custodial credit risk because the bank did not adequately collateralize the Sheriff's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$3,264,360

ROWAN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2008
(Continued)

Note 4. Leases

- A. On December 7, 2004, the Sheriff's office entered into a lease agreement with U.S. Bank to lease a 2005 Ford Explorer. The agreement requires 60 equal monthly payments of \$458 to be paid in full on December 30, 2009. As of December 31, 2008, the principal balance outstanding was \$5,496.
- B. On January 11, 2006, the Sheriff's office entered into a lease agreement with Xerox to lease a copy machine as well as provide maintenance and supplies for the machine for the Sheriff's office. The agreement requires 60 monthly base payments of \$204 plus additional charges if the maximum number of copies is exceeded. As of December 31, 2008, the principal balance outstanding was \$4,168.
- C. On December 19, 2006, the Sheriff's office entered into a lease-purchase agreement with the Kentucky Association of Counties Leasing Trust (KACoLT) for a 2002 Mercury Grand Marquis and a 2007 Ford Crown Victoria. The lease term is four years with four years with principal due each January starting January 2008, and is to be paid in full on January 20, 2011. As of December 31, 2008, the principal balance outstanding was \$25,433.

Note 5. Federal Grant

The Rowan County Sheriff's office was awarded a Domestic Violence Enforcement Grant from the United States Department of Justice in the amount of \$28,192. During 2008, funds totaling \$28,192 were received and expended.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Jim Nickell, Rowan County Judge/Executive
The Honorable Jack Carter, Rowan County Sheriff
Members of the Rowan County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Rowan County Sheriff for the year ended December 31, 2008, and have issued our report thereon dated November 16, 2009. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Rowan County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we do not believe that the significant deficiency described above is a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Rowan County Sheriff's financial statement for the year ended December 31, 2008, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Sheriff Has \$191 Of Disallowed Expenditures

The Rowan County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the Rowan County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

November 16, 2009

COMMENTS AND RECOMMENDATIONS

ROWAN COUNTY
JACK CARTER, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2008

STATE LAWS AND REGULATIONS:

The Sheriff Has \$191 Of Disallowed Expenditures

In Funk v. Milliken, 317 S. W. 2d 499 (Ky. 1958), Kentucky's highest court ruled that county fee officials' expenditures of public funds will be allowed only if they are necessary, adequately documented, reasonable in amount, beneficial to the public, and not primarily personal in nature. Testing performed during the audit found \$191 of expenditures for vehicle maintenance that were personal in nature. Disallowed expenditures should be repaid with a deposit of personal funds. In October 2009, the Sheriff deposited personal funds of \$191 to reimburse the 2008 fee account for these expenditures.

Sheriff's Response: I have repaid these accounts and taken steps to avoid this occurring again.

INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The office manager records transactions, prepares deposits, reconciles the bank account and often collects receipts. Good internal controls dictate that the same person should not perform these functions. There may be no way to fully eliminate this control deficiency due to budgetary constraints that limit the number of employees that the Sheriff can hire. The Sheriff could, however, implement some compensating controls such as having another office employee perform some of these duties or reviewing documents himself. Further, the Sheriff would need to document that he is reviewing monthly reports and bank reconciliations and periodically recounting and depositing cash. This could be done by initialing the documents. We recommend the Sheriff develop compensating internal controls to offset this deficiency.

Sheriff's Response: We are trying to take care of this.

